Which is best option?

HRA vs. HSA

Self-employed business owners find themselves wondering which is better, HRA or HSA. BASE® has put together a comparison of the typical BASE® Section 105 HRA vs an HSA to help clarify the difference between these two popular benefit plans.

As self-employed business owners look to consumer-driven health plans to help control costs, they continue to find various options that have very different advantages. BASE® believes that the HRA is the best direction for the self-employed looking to save benefit dollars. Not only has the HRA been around since 1954, unlike the HSA which has only been around since 2003, but it works with any health insurance plan.

SOLE PROPRIETOR PARTNERSHIP C OR S CORPORATIONS LLC	HEALTH REIMBURSEMENT ARRANGEMENT (HRA) An employer funded benefit plan, without any salary reduction, that reimburses employees for qualified medical expenses.	HEALTH SAVINGS ACCOUNT (HSA) An account created in conjunction with a High Deductible Health Plan (HDHP) to pay for qualified medical expenses.	HRA ADVANTAGE
Eligibility	Any employee that satisfies the employer established non-discrimination rules under IRC § 105(h).	Any individual covered under a qualifying HDHP and not qualified for Medicare or under another non-qualifying health plan.	The HRA does not require a High Deductible Health Plan.
Health Plan Requirements	None.	Must have a qualifying HDHP. For individual coverage an annual deductible no less than \$1,300 with a maximum annual out-of-pocket limit of no more than \$6,450. For family coverage an annual deductible no less than \$2,600 with an annual out-of-pocket limit of no more than \$12,900.	The HRA will work with any Health Insurance policy, regardless of deductible amounts and out-of-pocket maximums.
Funding	Employer funded; pre-funding not required. These funds are not transferred to/from BASE®.	Employer and/or employee funded; pre-funding required.	Employer controls funding amounts of the HRA, so funds are not transferred to/from a third party. This allows for more control by the employer.
Contribution Limits	Unlimited. *Within plan parameters.*	100% of the deductible or \$3,350/\$6,650, whichever is less. *Born before 1952, add \$1,000.*	The HRA is unlimited, while the HSA is restricted to a maximum (individual/family) funding amount per year.
Tax Treatment	Non-taxable to the employee, deductible by the employer	Employer portion is non-taxable to the employee and deductible by the employer. Employee funding is typically a post-tax contribution and deductible as a personal expense on the 1040.	HRA is 100% deductible from a federal, state, and self-employment tax standpoint.
Non-Discrimination Requirements	Subject to non-discrimination requirements under §105(h).	Employer must make "comparable" contributions for all employees.	With an HRA, the employer has the ability to exclude certain employees (i.e. Part-time, Age, Length of service)
Allowed Benefits	Reimbursement of qualified health insurance premiums** and medical expenses under § 213.	Reimbursement of qualified medical expenses under § 213.	The HRA can be used for health insurance premiums**, while the HSA cannot.
Carry Over	Unused funds may be carried forward to subsequent years.	Unused funds may be carried forward to subsequent years.	____

** *The Affordable Care Act may not allow the reimbursement of health insurance premiums based on your business size and plan design. Please contact BASE® for more information.*

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